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ABSTRACT

An increasingly popular economic development tool to improve the success rate of new firms is the small business incubator. These are buildings in which a number of new or growing businesses can locate and operate at a much lower overhead cost than in conventional space where market rates prevail. Incubator facilities are characterized by access to shared, centralized services such as clerical and administrative help, receiving and shipping facilities, conference rooms, computers and word processors, and business assistance resources. Incubator facilities are generally targeted toward small firms that may lack the management, technical, and financial ability to survive on their own. This handbook discusses the small business incubator concept, outlines some general characteristics of incubator facilities, and provides information on technical and financial assistance for incubator development. In addition, the handbook contains a series of brief case studies on small business incubators that have been established throughout the country and in Illinois. (KC)

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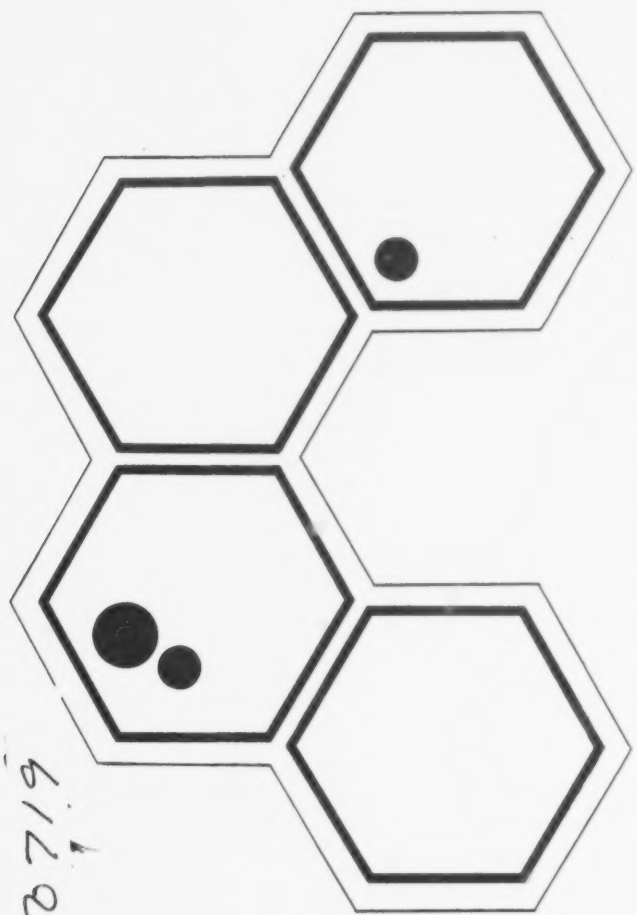

STARTING A SMALL BUSINESS INCUBATOR

A Handbook for Sponsors and Developers

BUILD ILLINOIS

CE 050 719

Illinois Department of Commerce and Community Affairs

STARTING
A SMALL BUSINESS INCUBATOR:
A HANDBOOK FOR SPONSORS AND DEVELOPERS

Department of Commerce and Community Affairs
Office of Urban Assistance

TABLE OF CONTENTS

		Page No.
I.	The Role and Characteristics of the Small Business Incubator	
	A. Introduction	1
	B. Sponsor and Objectives	3
	C. Building Type and Location	3
	D. Tenant Composition	3
	E. Rent, Fee, and Graduation Policies	4
	F. Range of Support Services Provided	4
II.	Steps in Developing an Incubator	
	A. Concept Development	6
	B. Gathering Background Information on Programs, Procurement, and Alternatives	6
	C. Identification and Involvement of Interested Parties	6
	D. Analysis of Market Potential for the Incubator	7
	E. Location and Selection of a Building and Site	7
	F. Rehabilitation of the Incubator	8
	G. Management and Staffing of an Incubator	8
	H. Screening and Selection of Tenants	10
	I. Technical and Financial Assistance for Incubator Tenants	10
III.	Where to Get Help in Starting and Managing an Incubator	
	A. Existing Incubator Operators	11
	B. Department of Commerce and Community Affairs	11
	C. Office of Private Sector Initiatives -- U.S. Small Business Administration (SBA)	12
	D. The National Business Incubation Association (NBIA)	13
	E. Consulting Organizations	13
	F. Other Sources	14
IV.	Financial Sources for Incubator Development	
	A. Introduction	16
	B. Foundation Support	17
	C. Public Works Grants -- Economic Development Administration (EDA)	18
	D. Community Development Block Grants, Entitlement Areas, Department of Housing and Urban Development	19
	E. Section 312 Rehabilitation Loans, Department of Housing and Urban Development	20
	F. Urban Development Action Grant (UDAG), Department of Housing and Urban Development	21
	G. Illinois Small Business Incubator Program, Department of Commerce and Community Affairs	22
	H. Community Development Assistance Program, Department of Commerce and Community Affairs	23
	I. Illinois Enterprise Zone Program, Department of Commerce and Community Affairs	24

V. Case Studies

A. Binghamton, New York Incubator 25
B. Control Data Business and Technology Center, Champaign, Illinois 26
C. Fulton-Carroll Center, Chicago, Illinois 27
D. Advanced Technology Development Center, Georgia Tech University, Atlanta, Georgia 28
E. Northwest Pennsylvania Regional Incubator Project, Erie, Crawford, Lawrence and Warren Counties, Pennsylvania 29
F. Ridgway, Pennsylvania Incubator 30
G. The Business Center for New Technology, Rockford, Illinois 31
H. Science Park, New Haven, Connecticut 32
I. Central New York High Technology Incubator, Syracuse, New York 32
J. Galesburg Business and Technology Center, Galesburg, Illinois 34
K. Macomb Business and Technology Center, Macomb, Illinois 35
L. Maple City Business and Technology Center, Monmouth, Illinois 36
M Quincy Business and Technology Center, Quincy, Illinois 37

I. THE ROLE AND CHARACTERISTICS OF THE SMALL BUSINESS INCUBATOR

A. INTRODUCTION

There is a substantial and growing body of knowledge about the entrepreneur's and small businesses' contribution to the economy in terms of job creation, innovation, and productivity. For example, all of the 980,000 net new jobs generated in the American economy during 1981 and 1982 came from independent small businesses with fewer than 20 employees. In addition, small firms and inventors are 2.4 times more productive per employee and 24 times more productive per dollar of research and development expenditure in the generation of innovations than large firms.[1]

We also know that environmental forces, such as the growing rate of technical change, the expansion and globalization of markets, and the increasing specialization of jobs and work skills, are making it increasingly difficult for small businesses to compete. Small businesses, especially those under five years old, are often so vulnerable that a single serious mistake in purchasing, marketing, location, or personnel may spell disaster. An estimated 2,000 businesses close their doors each year because of at least one serious error which was not foreseen.[2] Nine out of ten small businesses fail due to management deficiencies. And research shows that nine out of ten causes of failure could have been foreseen.

An increasingly popular economic development tool to improve the success rate of new firms is the small business incubator. These are buildings in which a number of new or growing businesses can locate and operate at a much lower overhead cost than in conventional space where market rates prevail. Incubator facilities are characterized by access to shared, centralized services such as clerical and administrative help, receiving and shipping facilities, conference rooms, computer and word processors, and business assistance resources.

Incubator facilities are generally targeted toward small firms that may lack the management, technical, and financial ability to survive on their own, firms that can gain tangible benefits from the common support services available. Small businesses in incubators can keep potentially large overhead costs manageable by paying for services on a shared, fee-for-service basis. The cash flow benefits, access to assistance sources, and interaction with other entrepreneurs in an incubator facility have been shown to greatly improve the chances of success for start-up companies.

In 1983, in response to the pressing needs of small firms with respect to incubator space and other concerns, Governor Thompson developed the "Illinois Plan." One of its key elements was a proposal to develop small business incubator facilities. The Illinois Department of Commerce and Community Affairs has taken several steps to implement this aspect of the

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[1] U.S. Small Business Administration, The State of Small Business, United States Government Printing Office, Washington, D.C., 1984.

[2] Clark, Thomas D., and Seik, Jo Ellen, Business Survival Skills Directory, Xavier University, 1983.

"Illinois Plan." One of those steps was the development of this handbook on Starting a Small Business Incubator, which was prepared in cooperation with the U.S. Small Business Administration, Region V.

The handbook discusses the small business incubator concept, outlines some general characteristics of incubator facilities, and provides information on technical and financial assistance for incubator development. In addition, the handbook contains a series of brief case studies on small business incubators that have been established throughout the country and in Illinois.

The key aim of most small business incubators is to reduce the rate of small business failures by making it easier for them to survive the critical early stages of business start-up. This is achieved through the provision of inexpensive, appropriately sized space; access to commonly required administrative support services; and occasionally access to management, financial, and technological resources. All new businesses make mistakes, and the incubator gives new firms more "breathing room" to learn important lessons from errors that otherwise could be fatal. Valuable working capital is preserved by the reduced overhead required to operate in an incubator facility. Most incubators also aim to "graduate" their tenants to conventional quarters once the business is strong enough to stand on its own.

In using this handbook, it should be kept in mind that there are no "typical" incubators, no specific definitions to be adhered to, and few government programs or regulations that specifically address the concept. There are many dimensions to the small business incubator that vary widely among individual projects, and certainly new permutations will be seen in the future. While this diversity of application makes it harder to generalize about incubators, it also provides great flexibility for local communities, development organizations, corporations, and other sponsors to adapt the concept to local economic conditions, development needs, and available resources.

Incubators can be appropriate components of development strategies for urban, suburban, and rural neighborhoods; for areas of growth, stagnation, and decline; and for new firms in a broad range of industries. This handbook provides information on the range of options available for incubator design and operation, as well as the key considerations to keep in mind during the development of a local incubator project.

The success of a new business venture cannot, of course, be guaranteed. This is an outcome ultimately determined by the marketplace. But for many small business owners, the available services and positive cash flow impact of an incubator location can increase the probability of survival substantially. With the expansion of small firms within and beyond the incubator building itself, the local economy is strengthened; job opportunities are created; and physical, economic, and social benefits can be achieved for the neighborhood and the city. Incubators themselves are not a cure-all for a troubled economic base, but they can be integral parts of broader economic development strategies at the local level.

While there are many ways in which incubators can differ, there are five essential dimensions of development and operation that are generally found among existing incubator facilities, specifically:

- sponsor and development objective(s);
- building type and location;
- tenant composition (target market);
- rent, fee, and graduation policies; and
- range of support services.

B. SPONSOR AND OBJECTIVES

Incubator facilities have been started and operated by cities, counties, regional authorities, large corporations, small companies, universities, chambers of commerce, not-for-profit development groups, and private real estate developers. Motivations for involvement in incubator projects include one or more of the following: profit, utilization of vacant buildings, job creation, urban redevelopment, marketing outlets for sponsor products and services, general economic and business development, or some combination. While many of these common objectives are complementary, they are also potentially in conflict, and incubator developers need to keep their goals and priorities in mind at all times.

C. BUILDING TYPE AND LOCATION

Incubators have been located in depressed urban industrial environments, retail shopping strips, near universities, in industrial and science parks, and in small towns far removed from metropolitan areas. Most operating incubators are in older, renovated manufacturing or warehouse structures, although some new buildings have been constructed to house incubator facilities. These tend to be private-sector owned and operated. The physical layout, architectural and rehabilitation cost, subdivision of space and utilities, and furnishings of common areas and individual spaces all affect the cost of the project and the rents and fees that tenants have to pay. These factors should be carefully considered in determining the financial and market feasibility concurrently with the selection of the incubator's operating features and policies.

D. TENANT COMPOSITION (TARGET MARKET)

Incubator sponsors often design the facility to attract tenants in particular industries or with well defined physical needs that the building provides (e.g., wet laboratory space or a railroad spur). One popular perception is that incubators are for high technology start-ups, and a large number are. Experience has shown that most private sector incubator sponsors (e.g., Control Data Business and Technology Centers Inc.) design projects specifically for technology-based ventures to capitalize on the potentially high growth and returns within advanced technology industries. University connected incubators, such as those at Georgia Tech and Carnegie-Mellon, also have adopted this orientation to take advantage of potential synergies between firms and the institutions' research capabilities; provide entrepreneurial opportunities for faculty, staff, and students; and to generate future tenants for university operated research or industrial parks.

However, many incubators have achieved spectacular results with occupants in manufacturing, assembly, service, wholesale, and retail industries. While most facilities use some leasing criteria and screen potential tenants, some have succeeded by initially renting to anyone who was interested. This demonstrates the potential danger of "over-managing" an incubator project when local economic and entrepreneurial environments make such control inappropriate.

While the incubator concept is aimed at new, start-up businesses, several project directors have found it advantageous to include established firms in their tenant mix. These companies can provide more reliable cash flow, afford higher rents, and stabilize the facility during the potentially lengthy lease-up period.

E. RENT, FEE, AND GRADUATION POLICIES

Incubator leases may be uniformly structured with prespecified rents, or handled case-by-case according to the individual firm's circumstances and needs. It is not uncommon for an incubator director to defer or restructure rent obligations due to unexpected business downturns or upswings. Some sponsors may accept an equity position in the tenant firm as part of the tenancy agreement.

Base rent in an incubator may or may not include utilities and a common core of services with unlimited access. Many services and business machines are provided on a fee basis so that firms only pay for what they use. Incubator sponsors often price their services at or slightly above cost in order to minimize tenants' overhead. Some project directors have developed sophisticated accounting procedures for establishing service fees and options, while others have been more arbitrary and collaborative in setting or negotiating fees.

Of course, the rent and service price levels set are influenced by the cost of acquiring, renovating, and operating the facility and the sponsor's expected return on investment. Public sector sponsors may wish to subsidize the facility's operating costs after determining that the marginal loss on rent or services is less than the benefit of reducing tenants' operating expenses, although this is appropriately a public policy question. Incubator sponsors should pay close attention to the decision to set fees at, below, or above the cost of providing space and services. The result directly affects the fortunes of the tenant businesses and the achievement of the project's long-term goals.

F. RANGE OF SUPPORT SERVICES PROVIDED

There is a nearly infinite number of service combinations that sponsors can offer tenants in incubator buildings. Most new and small firms do not generate a sufficient volume of business to justify full-time administrative help, and such needs can be provided centrally by the sponsor. These normally include typing, stenographic, copying, mailing, shipping, phone answering, and reception services. Conference rooms, business and technical libraries, credit reports, insurance, and joint purchasing arrangements are amenities also provided by incubator facilities. Some incubator managers may contract or arrange for professional services, consultants, or other business development resources through private and public sector organizations or programs. It is important for the incubator director to have working relationships with public officials involved in business development so that tenants can be referred quickly to appropriate assistance sources. These may include the Illinois Department of Commerce and Community Affairs, the U.S. Small Business Administration, the federal Department of Commerce's Minority Business Development Agency, local chambers of commerce, trade associations, or the network of Small Business Development Center satellites at universities and community colleges in Illinois.

A few incubator sponsors have certified development companies or local development companies located in or near the building itself to provide financial assistance and counseling when necessary for tenants. In what has been termed the "quintessential incubator of entrepreneurial ventures," venture capital firms have offices located adjacent to the tenants in Thomas Ford's incubator in Menlo Park, California. While it may not be possible to institutionalize relationships with financing sources to this extent, it is probably advantageous to have the local financial community aware of the incubator project and the needs of tenant firms in order to provide maximum access to capital sources.

In some cases, the incubator director acts as an informal consultant for tenants and maintains close contact with the owners to monitor progress and performance. While this may not be explicitly included as part of the service package, the role of the director is crucial for the smooth functioning of the facility and the well-being of the tenant businesses. This should be specified in advance by the incubator sponsor since it has an impact on the talents required of the director and the number of available candidates.

The decisions about the number, extent, and pricing of services are critical to the success of the incubator facility and should be researched and discussed extensively along with a range of alternatives. The service package must be designed to match the tenant composition, the financial condition of the sponsor, expected returns, and overall project objectives.

II. STEPS IN DEVELOPING AN INCUBATOR

This section of the handbook will briefly outline some basic steps in the development of a small business incubator. These guidelines can be used in conjunction with other sections of the handbook as aids in the incubator development process.

A. CONCEPT DEVELOPMENT

Section I of this handbook discussed in some detail the various types and characteristics of small business incubators. Before embarking on the often complex path to incubator development, one needs to have in mind a general idea or concept of the type of business incubator that will be planned. Will it be geared mainly to advanced technology firms, manufacturing/assembly concerns, or to office/service type businesses, or perhaps a mix? Will it likely be situated in a central city area or in an outlying location? Will it be organized on a for-profit or not-for profit basis? While certain aspects of the basic concept may change as the development process unfolds, it is desirable to have a general idea of some of the key parameters in order that they can be tested and logically examined by all parties concerned.

B. GATHERING BACKGROUND INFORMATION ON PROGRAMS, PROCEDURES, AND ALTERNATIVES

Once the incubator development group has a concept in mind concerning the type of incubator that might be established, the next step is to gather and study as much information as possible about similar types of incubators, as well as background material such as this handbook that covers various aspects of the incubator development process.

At this stage, it may be desirable for the incubator developer, or development group, to visit small business incubators in other parts of the country to view their operations and discuss first-hand the procedures that were followed, and the problems that were encountered and solved. (Section V-Case Studies of this handbook lists incubator locations and contact persons.)

It should be possible at this point to also begin identifying alternative ways to achieve specific objectives with respect to organizational structure, financing, etc. Preliminary discussions can also be held with officials of agencies and programs that may be available to provide technical and financial assistance. (See Sections III and IV of this handbook.)

C. IDENTIFICATION AND INVOLVEMENT OF INTERESTED PARTIES

There are a number of organizations and individuals who can be of help in making a small business incubator a reality. Incubator developers will want to touch base with appropriate agencies and businesses in the community to explain what is being proposed as well as to enlist support and cooperation. In this category fall chambers of commerce, business colleges, vocational schools, local government officials, community development agencies, private industry councils, banks, major employers, etc.

If some sort of not-for-profit corporation is being considered, this is the time to begin thinking about potential board members who would have backgrounds and skills that they could bring to bear on the development and operation of a small business incubator (e.g., successful operators of small businesses; accountants; management consultants; staff members of industrial or economic development agencies; etc.). One way of approaching the task of identifying interested parties would be to use a survey questionnaire such as has been done in many communities. As the survey is being administered, it is possible to explain the proposed incubator program objectives, and to determine where the most interest and support would likely come from. Such surveys can also provide an opportunity to pick up valuable information about market potential of new businesses, possible new business ventures that could be created to serve needs in the area, as well as information about potential entrepreneurs or tenants who could benefit from an incubator environment.

D. ANALYSIS OF MARKET POTENTIAL FOR THE INCUBATOR

Interest in the small business incubator concept seems to be growing in many parts of the country, especially in those areas where unemployment is high as well as those areas that need to create new job opportunities. However, while a high level of interest is of value if it can be translated into support of one type or another, there must exist a potential demand for incubator space on the part of entrepreneurs with workable business ideas. This is where the use of the questionnaire mentioned above would be of value. As interviews are held with local employers and business leaders, information will be generated with respect to (1) product/service needs that could be served by local businesses (e.g., needs that are now being served by suppliers in other parts of the country); and (2) potential entrepreneurs who may have ideas, products, or services that can be further developed in incubator space. The interviews of business leaders will also provide a better understanding of the local economy and specific issues that might either hinder or help new small business development in the area. With such information, the incubator developer will be better able to determine not only the type and size of a facility that might be workable, but also other local problems that need to be resolved, or benefits that can be exploited.

E. LOCATION AND SELECTION OF A BUILDING AND SITE

Most every community has one or more unused or older buildings that might be suitable for a small business incubator. The building may have been formerly used as a:

- manufacturing plant;
- warehouse;
- strip shopping center;
- governmental building; or
- school.

As noted earlier, incubators may be located in a variety of settings. Wherever it is located, it is important that it be easily accessible by suppliers, customers, and employees; be near good transportation facilities if product shipping will be involved; be served by adequate public utilities; and have good off-street parking facilities.

While a one story building is generally more suitable for manufacturing operations, small business incubators have been developed throughout the country in both one and multi-story structures. In terms of size, incubators in the U.S. have ranged from 20,000 square feet to 300,000 square feet.

Once one or more potential buildings have been identified, a decision as to which one would best meet the needs should be made by carefully assessing all the following factors:

- availability of the structure (can it be readily acquired?);
- price of the property;
- rehabilitation needs and costs;
- operating costs; and
- suitability for the purposes for which it will most likely be used.

In some cases, older buildings have been donated to a group that is developing the incubator. The building may be one that a company no longer uses or needs and for which there is very little market potential in its present form; or it may be an obsolete public building that no longer has any functional public use. If it is possible to acquire a building and site through donation, fund raising efforts can be concentrated on the financing of the rehabilitation or remodeling that may be required, as well as on the generation of working capital needed to get the facility up and running. (Note: Section IV of this handbook discusses possible sources of financing for incubator development.) If money will need to be borrowed to cover acquisition and/or rehabilitation costs, it would be advisable to have a financial feasibility study prepared to determine whether potential income from the operation of the incubator will be sufficient to cover operating costs and debt service.

It is very difficult to pre-lease an incubator. Developers should keep this in mind and structure their financing package to accommodate the potentially lengthy lead time before break-even occupancy is achieved. Ideally, funding sources should be flexible and provide reasonably priced capital, taking into account the lengthy lease-up period.

F. REHABILITATION OF THE INCUBATOR

Once a building has been acquired and there is a general agreement as to the types of businesses that will likely be locating in the facility, rehabilitation can begin. Often the biggest costs in renovating an older structure will be for such items as: new roof, new windows, tuckpointing, new heating/air conditioning system, replacement of old plumbing, and installation or replacement of an elevator. It is generally best to leave the interior space as open and flexible as possible so that it can be adapted to fit the needs of tenants with varying requirements. Rehabilitation costs of existing small business incubators vary widely, depending on the initial condition of the facility as well as its intended use. Rehabilitation costs of incubators have ranged from $0.60 per square foot to $26.00 per square foot.

G. MANAGEMENT AND STAFFING OF AN INCUBATOR

Incubator facilities are often managed by the organization or agency responsible for developing them (e.g., a local development agency or a private business entity). However, in some cases, the initiating agency or group contracts with another group to manage the facility. As an example, the City of Syracuse, New York donated a building for an incubator and secured financing from the federal Economic Development Administration; then it turned over the management of the facility to the local chamber of commerce.

In some cases, the managing entity is a 503 Local Development Corporation, which enables the incubator to readily offer Small Business Administration, Section 503 debt financing to tenant firms.

Regardless of the type of entity responsible for the overall management of the small business incubator, most facilities seem to operate with two to four staff persons. A basic staff would include a director, a clerical staff person, and perhaps an administrative services manager and a maintenance person.

The incubator staff are crucial to the successful operation of an incubator facility. While extensive formal and technical education is not required in most cases, incubator staff need to possess a range of skills and qualities that will enable them to deal with an unimaginable range of situations which can arise in incubator settings. Staff members should be at least cognizant of available techniques for contingencies that might arise.

Staff should be able to efficiently operate the central office core services, including the scheduling of common facilities, providing fair access to equipment and personnel, setting service fees, hiring and firing, providing for security, and assuming other generic office management responsibilities. A working knowledge of accounting, marketing, operations, and a broad awareness of the economic activity of the area's markets is useful if the staff are to act as an ad hoc, in-house consultant to tenants. Technology-based incubator facilities often find it useful to hire individuals familiar with scientific terminology, technical information sources, equipment needs, and so on. When staff act as building engineers concurrently, experience with electrical and mechanical systems is of course useful.

Few incubators are designed to keep tenants separate; most have common access to hallways, restrooms, shipping and receiving docks, elevators, and central services. Experience has shown that this casual interaction produces positive psychological and business results. However, incubator staff need to be able to mediate the inevitable logistical controversies that occur. Concentrations of creative, dedicated, and often headstrong entrepreneurs are likely to produce a few differences of opinion, and incubator staff must be prepared to deal with these controversies.

The incubator director typically would be responsible for the day-to-day operations, would hire and supervise the other staff members, as well as coordinate all technical and financial assistance to the tenant firms.

The administrative services manager would oversee the operation of any business services that the incubator provided such as: clerical services, word processing, reception services, and photocopying. This person would also serve in a liaison capacity with other groups that can provide specialized services.

The clerical staff person would serve as a receptionist and provide basic business services.

H. SCREENING AND SELECTION OF TENANTS

The success of an incubator depends, in part, on the type of tenants that rent space in the facility. They should have their business ideas as well thought out and planned as possible, and have enough working capital to meet their needs in the early phases of their development. They should also have the necessary management skills required to operate their businesses. A good tenant mix is also desirable, one in which business operations may be able to support and complement one another.

In order to insure that many of these tenant selection criteria are met, business incubators often use a screening process which draws upon the talents and advice of persons experienced in various aspects of developing and managing a business. Screening panel members could be drawn from the incubator management organization or from other areas within the community, and include persons with backgrounds in such areas as:

- accounting/taxes
- small business management
- production
- personnel
- marketing
- sales
- business planning
- purchasing
- business law
- finance
- computer science

In the event that the screening committee finds that prospective tenants do not meet the basic criteria that may be established by the incubator management, then it could advise the applicants on the steps that need to be taken to overcome their weaknesses. The screening panel can also help the prospective tenants obtain access to the technical and financial aids that may be available in the area.

I. TECHNICAL AND FINANCIAL ASSISTANCE FOR INCUBATOR TENANTS

Once tenants have been selected for the incubator, efforts should be made to determine the types of technical and financial assistance that the tenants may require to successfully implement their business plans and grow to the point where they can be "weaned" from the incubator. The orchestration of the assistance required to meet tenant needs is one of the responsibilities of the manager of the incubator, with assistance from other advisory groups such as the tenant screening panel or the incubator board.

Sections III and IV of this handbook include information on a number of sources of technical and financial assistance that can be drawn upon in establishing a small business incubator.

III. WHERE TO GET HELP IN STARTING AND MANAGING AN INCUBATOR

A. EXISTING INCUBATOR OPERATORS

Often, the best advice on starting a small business incubator can be obtained from those who have already established one. Section V of this handbook contains a series of brief case studies on existing small business incubators in various parts of the country. The name, address, and phone number of individuals in charge of the incubators are included. Such individuals are usually ready and willing to provide advice on the development of a new facility.

B. DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS

The Illinois Department of Commerce and Community Affairs (DCCA) is the state's economic development agency. Since 1984, the Department has taken a leadership role in promoting the establishment of small business incubators. In doing so it has utilized various financial resources, including federal block grant and special grant funds, cooperative endeavors with governmental and private entities, and allocations of state funded agency resources. DCCA also cooperated with the U.S. Small Business Administration to sponsor one of the first major conferences on small business incubators.

Small Business Incubator Program -- DCCA is responsible for a state financed assistance program for small business incubator development enacted as a part of the state's "Build Illinois" Program in June, 1985. DCCA solicits proposals for incubator financing from local governmental units, not-for-profit organizations, and educational institutions desiring to have a vacant or nearly vacant building designated as a small business incubator and provides state funding to support the development and operation of the facility. The local incubator sponsor is required to carry out market and feasibility studies, obtain strong local support and matching funds, and demonstrate that it has the ability to market the facility, recruit eligible tenants, and provide business and management assistance. Potential incubator sponsors must complete an application to be considered under this program. Interested incubator sponsors may obtain application related materials from DCCA.

Publications -- Also available from DCCA is a publication titled: "Managing a Small Business Incubator". It provides guidelines on the management aspects of a small business incubator including advice on staffing, marketing, tenant selection, support services, and financial management of the facility.

The Department of Commerce and Community Affairs also has prepared a document titled "Guidelines for Determining the Feasibility of a Small Business Incubator", which contains procedures and worksheets that can be followed in conducting a market analysis and determining the general feasibility of a proposed incubator's success. This document is available from DCCA free of charge.

Other Resources -- The Department also manages a number of other programs that could provide help to those considering the establishment of a small business incubator. The first contact with the Department should be with a DCCA marketing representative. A marketing representative can be of direct assistance or refer interested parties to DCCA staff members who can help with:

- the location of possible incubator sites and buildings;
- information on community profiles;
- general information and advice on small business incubators;
- community development programs that may help finance the development of an incubator.

DCCA's marketing staff can be contacted at the locations listed below:

620 East Adams Street
Springfield, Illinois 62701
217-782-6861

100 W. Randolph Street, Suite 3-400
Chicago, Illinois 60601
312-917-6649

2309 West Main
Marion, Illinois 62959
618-997-4371 Ext. 328

515 North Court Street
Rockford, Illinois 61103
815-987-7722

10 Collinsville
State Office Building
East St. Louis, Illinois 62201
618-875-9300 Ext. 388

2500 Carlyle Road
Room 1259
Belleville, Illinois 62221
618-235-8566

C. OFFICE OF PRIVATE SECTOR INITIATIVES, U.S. SMALL BUSINESS ADMINISTRATION (SBA)

SBA's Office of Private Sector Initiatives provides a number of services designed to help potential sponsors of small business incubators. The office provides:

- a national clearinghouse of information on small business incubators, and a national database on incubator projects;
- specialized conferences and educational programs on developing and managing successful incubator facilities;
- technical assistance to communities or organizations sponsoring small business incubator projects;
- a promotional campaign to increase corporate awareness of the role incubators can play in the community's development strategy;
- publications to promote and share information on small business incubators and speaker referrals for development conferences addressing incubators;
- Incubator Times, a newsletter designed to promote and share information on small business incubator initiatives nationwide;
- a Resource Kit which contains: "Small Business Incubator Handbook: A Guide for Start-Up and Management", "Small Business Incubator Resource Summary", "Small Business Incubator Perspectives", and "Small Business Incubator Directory".

For more information or assistance contact:

Office of Private Sector Initiatives
U.S. Small Business Administration
1441 L Street NW, Room 720A
Washington, D.C. 20416
202-653-7880

Ms. Nancy Smith
Management Assistance Specialist
U.S. Small Business Administration
219 South Dearborn Street
Chicago, Illinois 60604
312-353-4430

D. THE NATIONAL BUSINESS INCUBATION ASSOCIATION

The National Business Incubation Association (NBIA) is a member-service and information association devoted exclusively to the business incubation industry.

The NBIA brings together as members the key individuals and organizations in the business incubator industry, including incubator owners and operators, incubator developers, economic development professionals, elected officials, real estate developers, venture capitalists and investors, and others who are consultants to emerging businesses. The association works to promote the growth of the business incubator industry. Specific objectives are:

- meeting members' needs for information through research, referrals and newsletters;
- sponsoring annual conferences and national training institutes;
- monitoring regulatory and legislative activities;
- building awareness of business incubators; and
- informing and educating leaders, potential supporters and investors of the significant benefits of incubators.

Annual membership in NBIA is $125 for each individual. Dues include subscription to the NBIA REVIEW. Additional information may be obtained by contacting:

National Business Incubation Association
P. O. Box 882
Fairfax, Virginia 22030-0882
703-765-0927

E. CONSULTING ORGANIZATIONS

Several private companies assist in the development of small business incubators, including: the Control Data Corporation, Pryde Roberts and Co., Job Creation Ltd., and Technology Centers International.

Control Data Corporation, headquartered in Minneapolis, Minnesota, has been actively developing and financing small business incubator facilities since 1979. Presently, the corporation has eight Business Technology Centers in operation throughout the country, primarily in disadvantaged neighborhoods. Half of them are office type centers, while the others have the capacity to house companies involved in light assembly or manufacturing. Control Data does not plan to develop any additional facilities itself. However, it is starting to license its procedures with

other organizations or agencies that may be interested in developing incubator facilities. The cost of Control Data's basic licensing procedures (not including real estate and other professional service fees) is $50,000. As a part of Control Data's services, it will:

- work with interested parties in identifying appropriate sites for incubator facilities;
- design a service package that will work best in the facility selected;
- hire and train the staff needed to manage the center; and
- provide ongoing management support.

Pryde Roberts & Co. relies mainly on private financing to help get a small business incubator established. The firm utilizes real estate tax incentives to attract private investment for incubator development, as well as to establish a seed capital fund. The firm keeps a percentage of the money raised for compensation and a piece of the seed capital fund which it manages. As a part of its assistance package, the firm establishes a small business advisory network.

Job Creation, Ltd. is an English firm that specializes in the establishment of small business incubators in communities that have had plant closings.

Technology Centers ternational, Inc. was started by Loren A. Schultz in the late 1970's. In cooperation with a group of successful businessmen with experience in venture capital funding, the firm has developed ten Technology Centers in high technology regions. Schultz believes that the main ingredient that distinguishes a true incubator from a real estate operation is a resident advisor or "champion" who helps fledgling businesses develop business plans and provides advice on other technical aspects of business start-ups. The firm also provides seed capital for promising new ventures.

The addresses and phone numbers of the four above firms are as follows:

Control Data
World Tech, Inc.
7600 Frances Avenue South
Minneapolis, Minnesota 55435
618-894-4098

Pryde Roberts & Co.
1150 17th Street
Suite 600
Washington, D.C. 20036
202-659-9055

Job Creation, Ltd.
17-18 Bond Street
London, England WIX3DA
001-44-1/409-2229

Technology Centers International
1060 Route 309
Montgomeryville, Pennsylvania 18936
215-646-7800

F. OTHER SOURCES

The pool of resources available to assist incubator sponsors is growing all the time. Other available publications include:

Small Business Incubators:
A How To Guide
Community Information Exchange
National Urban Coalition
1120 G Street, NW, 9th Floor
Washington, D.C. 20005

Feasibility of High-Tech Company Incubation in Rural University Settings
Missouri IncuTech, Inc.
Route 4, P. O. Box 519
Rolla, Missouri 65401 Price: $10

New Business Incubators:
The American Experience
IC^2 Institute
University of Texas at Austin
2815 San Gabriel Street
Austin, Texas 78705

Business Incubator Profiles
Cooperative Community Development Program
Hubert H. Humphrey Institute of
Public Affairs
267 19th Avenue South
Minneapolis, Minnesota 55455
612-376-9996

IV. FINANCIAL SOURCES FOR INCUBATOR DEVELOPMENT

A. INTRODUCTION

There are several private, federal, and state funding sources that have been or that could possibly be used to finance the development of a small business incubator facility. This section of the handbook will discuss those possibilities.

In the private sector, there are certain foundations that have an interest in supporting community economic development. Such institutions are a potential source of incubator financing.

At the federal level, there are two agencies that have financing programs that could be used to help finance the development of small business incubators. These are the Economic Development Administration and the Department of Housing and Urban Development. These funds are available on a highly competitive basis, and the use of federal funding for small business incubators is not common. The burden will be on the applicant to clearly show how the incubator concept can fit the purpose of a particular federal program. The following federal programs are described in this section:

- Public Works Grants -- Economic Development Administration;
- Community Development Block Grants -- Entitlement Areas -- Department of Housing and Urban Development;
- Section 312 Rehabilitation Loans -- Department of Housing and Urban Development; and
- Urban Development Action Grant (UDAG) Program -- Department of Housing and Urban Development.

State programs that have been used or that could be used to help with the financing or development of an incubator facility include several programs administered by the Illinois Department of Commerce and Community Affairs. These programs, which are described in this section, include:

- Illinois Small Business Incubator Program;
- Community Development Assistance Program; and
- Illinois Enterprise Zone Program.

B. FOUNDATION SUPPORT

In certain cases, it may be possible to obtain a grant from a foundation to help finance the development of a small business incubator. University libraries usually maintain detailed information on the major foundations in the United States, including the types of projects and programs that such institutions are interested in funding. Also, there may be local foundations that can be approached for funding.

There are probably a number of foundations that would have funding interests that might relate closely to the aims being served by a small business incubator. In some cases, for a small fee, university libraries will conduct a computer search of the information they have on foundations. By using key words and phrases such as: "small business assistance," "community economic development," "helping minority businesses," "neighborhood revitalization," "jobs for the unemployed," etc., the library can pinpoint those foundations that are likely to have interests paralleling those of the group developing the incubator.

Before any detailed formal application is made to a foundation, a brief letter of inquiry is advisable in order to determine whether the foundation's present interests and funds permit consideration of a proposal. There is usually no application form and proposals should set forth:

- problems being addressed;
- objectives;
- detailed program for pursuing objectives;
- qualifications of persons engaged in the work;
- a detailed budget;
- present means of support and status of any applications to other funding sources; and
- Internal Revenue Service classification.

Applications are generally considered throughout the year and applicants may expect to receive within a month an initial indication of whether their proposals are consistent with the foundation's program interest and budgetary limitations.

Foundation grants are not usually made for routine operating costs, programs for which substantial support from government or other sources is readily available, or the construction or maintenance of buildings. In the case of small business incubators, the most likely aspects that might be funded by a foundation could include: salaries of incubator management personnel, cost of centralized office equipment, fees for professional advice and assistance for incubator tenants, marketing program costs, or the cost of some pilot or innovative feature that would facilitate the overall operation of the incubator and the success of its tenants.

C. PUBLIC WORKS GRANTS --ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)

Program Scope -- The Economic Development Administration's (EDA) Public Works Grants are used to help develop public facilities needed to initiate and encourage long term economic growth in designated geographic areas where economic growth is lagging behind the rest of the nation. Funds can be used for incubator facilities including:

- rehabilitation of buildings;
- site improvements; and
- access roads.

Public Works Grants can be used to finance up to 50 percent of the project cost. Severely depressed areas that cannot match federal funds may receive supplementary grants to bring the federal contribution up to 80 percent of the project cost. EDA grant funds are disbursed for costs incurred only after all contracts for construction have been awarded.

Eligibility -- Cities, counties, and other political subdivisions and private or public nonprofit organizations or associations representing a redevelopment area or a designated economic development center are eligible to receive grants. Corporations and associations organized for profit are not eligible.

Application Process -- An Economic Development Administration representative will meet with the applicant to establish the basis for a preapplication conference. After reviewing project and local development profile information with the regional office, EDA will notify the applicant if EDA can accept the application. If the project appears viable, a preapplication conference at the Regional Director's discretion may be arranged with regional office personnel. An Economic Development Representative assigned as coordinator of the project for EDA will provide necessary forms and assist in filling them out. For information on the program, contact:

Regional Administrator
Economic Development
Administration
175 West Jackson Boulevard
Suite A 1630
Chicago, Illinois 60604
312-353-7706

Illinois Office
Economic Development Administration
Lincoln Tower Plaza
524 South 2nd, Room 670
Springfield, Illinois 62701
217-492-4108

Example -- The City of Decatur received a Public Works Grant from EDA totalling $1,081,000 to help turn an industrial complex of deteriorating, energy inefficient structures, previously owned by Borg Warner and given to the city in 1984, into an incubator facility. The main structure, built in 1926, will be rehabilitated and divided into 12 low-rent spaces, ranging in size from 5,000 to 10,000 square feet, for new or expanding businesses. The total cost of the rehabilitation project is $1,545,000.

D. COMMUNITY DEVELOPMENT BLOCK GRANTS -- ENTITLEMENT AREAS -- DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Program Scope -- The purpose of this program is to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate income. Funds can be used for a wide range of activities directed toward neighborhood revitalization, the provision of improved community facilities and services, and economic development. This includes the development of small business incubators. Some of the specific activities that can be carried out in connection with the development of an incubator facility include:

- acquisition of real property;
- rehabilitation and retrofitting of building(s);
- site improvements, including parking.

All projects or activities must either benefit low and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet other community development needs having a particular urgency. Units of local government may contract with other local agencies or non-profit organizations to carry out a program such as the development and management of a small business incubator.

Application Process -- HUD makes annual formula grants to the larger urban areas in a state -- i.e., counties over 200,000 in population and cities with population over 50,000. In order to receive its annual entitlement grant, a community (after required public hearings and citizen input is obtained on its proposed program) must submit required certifications and a copy of its final statement of community development objectives and projected use of funds to HUD. If the community makes a complete submission of all requirements within the established deadlines, HUD will make a full grant award within 30 days unless a determination has been made that the grantee has failed to carry out its previously approved activities in a timely manner or failed to conform with the requirements of the statute and other applicable laws. For information on the program contact:

Department of Housing and Urban Development
Chicago Regional Office
547 West Jackson Boulevard
Chicago, Illinois 60606
312-353-1696

Example -- The Science Park Development Corporation obtained $1 million in Community Development Block Grant (CDBG) funds from the City of New Haven, Connecticut's entitlement grant to help finance the development of small business incubators on a 2.25 acre site donated by the Olin Corporation. An old 150,000 sq. ft. factory building was rehabilitated and a new 60,000 sq. ft. building constructed. The complex is designed to attract and serve companies engaged in the pursuit and development of new scientific and technological products and processes. The total complex cost over $5 million to develop.

E. SECTION 312 REHABILITATION LOANS -- DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Program Scope -- The Section 312 Rehabilitation Loan Program provides funds to rehabilitate residential, non-residential, and mixed use properties in areas determined to be eligible by local governments as part of a Community Development Block Grant Program area. Funds can be used for only those rehabilitation costs that are necessary to bring a building up to the applicable building codes of the locality in which it is located.

Loans with up to a 20 year maturity are made to owners of buildings, such as an incubator facility, at an interest rate equal to the market yield on outstanding marketable securities of the United States with comparable terms.

Eligibility -- Property owners of residential and non-residential property in eligible Community Development Block Grant areas are eligible to apply for a Section 312 Rehabilitation Loan. Applicants must have the ability to repay the loan, and the security offered for the loan must be adequate.

Application Process -- An applicant submits a completed HUD 6243 loan form to the local government sponsoring the Community Development Block Grant Program. Applications are approved by HUD field offices or in some cases by local agencies subject to fund availability. For information on the program contact:

Department of Housing and Urban Development
Chicago Regional Office
547 West Jackson Boulevard
Chicago, Illinois 60606
312-886-0116

Example -- Neither the Central Office or Chicago Regional Office of the U.S. Department of Housing and Urban Development is aware of any instance in which the 312 Loan Program has been used to help finance the rehabilitation of a building for a small business incubator. However, this does not mean that a 312 loan couldn't be used for such a purpose.

F. URBAN DEVELOPMENT ACTION GRANT (UDAG) -- DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Program Scope -- Urban Development Action Grants provide low interest, second mortgage financing for commercial and industrial projects. UDAG grants fill financing gaps when available private financing is insufficient or where there is an insufficient rate of return. Funds can be used for any project activity, including a small business incubator, that results in new private sector development. Eligible activities include:

- site improvements;
- infrastructure development and rehabilitation;
- purchase of buildings idle for more than six months;
- renovation of buildings; and
- equipment with a useful life greater than five years.

UDAG funds are used directly by local governments to provide public improvements in support of economic development, or they may be loaned to a private business or developer. Proposals must have firm private commitments of at least $2.50 of private investment funds for every $1.00 of UDAG funds. Projects should generally be over $150,000 in order to receive consideration. A grant covers from 15 to 30 percent of the project costs. A minimum of one job must be created or retained for every $10,000 of UDAG funds. Projects creating one new job for every $5,000 to $6,000 of UDAG funds are more competitive. Interest rates on UDAG loans to private firms range from 3-10 percent. The maturity of the loan parallels the first mortgage.

Eligibility -- UDAG projects must be located in "potentially eligible" cities. Eligibility information may be obtained from the Illinois Department of Commerce and Community Affairs or a HUD Regional Office.

Application Process -- Project applications are accepted three times each year. Metro cities (population over 50,000) can submit during the months of March, July or November, while small cities (populations under 50,000) may submit during January, May, and September. Grant approvals are generally announced about 75 days after the application is submitted to HUD. UDAG grants are awarded on a nationally competitive basis. For information on the program contact DCCA marketing staff at:

620 East Adams Street
Springfield, Illinois 62701
217-782-6861

State of Illinois Center
100 West Randolph, Suite 3-400
Chicago, Illinois 60601
312-917-6649

OR Department of Housing and Urban Development
Chicago Regional Office
547 West Jackson Boulevard
Chicago, Illinois 60606
312-353-3246

Example -- A $2.5 million Urban Development Action Grant was awarded to the City of New Haven, Connecticut which, in turn, made funding available to the Science Park Development Corporation to help finance the development of Science Park. UDAG funds, along with other public and private funding, were used to help pay for the rehabilitation of a 30 year old abandoned factory building (150,000 sq. ft.) and the construction of a new 60,000 sq. ft. building. The buildings will serve as incubators for small embryo companies that are developing new scientific and technological products and processes.

G. ILLINOIS SMALL BUSINESS INCUBATOR PROGRAM -- DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS

Program Scope -- The Illinois Small Business Incubator Program makes loan or grant funds available for the development of small business incubators. The incubator must provide a supportive environment for young, start-up businesses and offer low cost rental space, shared front office services, and management and assistance. Funds can be used for:

- acquisition and preparation of the site;
- acquisition, renovation, and rehabilitation of an existing building and related professional and engineering costs;
- purchase of equipment and furnishings including equipment required to provide incubator services;
- operating expenses such as maintenance and upkeep of the facility; and
- costs of personnel required to manage and staff the facility.

Grants are available for up to 50 percent of the cost of a local incubator project. The loan repayment may be deferred at the discretion of the Department of Commerce and Community Affairs.

Eligibility -- Local governmental units (counties and cities), not-for-profit economic development organizations, educational agencies (public and private), or a combination thereof may apply for financial assistance under the program.

Application Process -- An application/feasibility package can be secured from the Department of Commerce and Community Affairs. A feasibility analysis should be completed according to guidelines provided and submitted to DCCA along with the application. The Department will award financial assistance to the top ranked proposals. Decisions can generally be expected within 60 days of submittal of the final application. Departmental staff are available to discuss project ideas and the availability of program funds and to help in determining the appropriateness of program funding. For information on the program contact:

Division of Small Business Finance
Department of Commerce and
Community Affairs
620 East Adams Street
Springfield, Illinois 62701
217-785-2708

Department of Commerce and
Community Affairs
100 West Randolph Street
Suite 3-400
Chicago, Illinois 60601
312-917-2367

Example -- The Chicago Economic Development Corporation (CEDCO) received a $300,000 grant to help create a 74,000 sq. ft. incubator facility in the Lawndale community. Known as the CEDCO Business Enterprise Center, the facility will provide both office and industrial tenants with essential business management and administrative support services. It is anticipated that 24 new jobs will be created in the first year with a total of 35 new jobs by the end of the second year. DCCA funds will be matched by a combination of public and private funds. The total cost of the project is $1,575,000.

H. COMMUNITY DEVELOPMENT ASSISTANCE PROGRAM -- DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS

Program Scope -- The Department of Commerce and Community Affairs operates the federally funded Community Development Assistance Program (CDAP). Funds are awarded to local governments for economic development/job creating activities. The local government uses the funds either as a grant or provides a low interest, subordinated loan for projects that create or retain jobs for low and moderate-income workers. The department currently is using CDAP funds to help support the development of small business incubators in Western Illinois. Funds can be used for:

- land and buildings;
- infrastructure improvements;
- construction or renovation of facilities;
- machinery and equipment; and
- some working capital expenses.

The project must maximize local and private leverage and limit CDAP participation to the minimum amount necessary for project initiation. In no case can CDAP funds comprise more than 50 percent of a project. At a minimum, projects should create or retain one job for every $3,000 of CDAP funds.

The maximum amount of funding awarded varies with the nature of the project -- with the ceiling being $400,000.

Eligibility -- Local governments with a population under 50,000 or local governments not located in urban counties (i.e., less than 200,000 in population) may apply for CDAP funds.

Application Process -- Application guides and forms can be obtained from the Department of Commerce and Community Affairs. Deadlines are included in the application guide. Applications are accepted on a quarterly basis. Each application is reviewed with other applications submitted in that application cycle. After reviewing each application, site visits are made to the higher ranking projects to verify information and further evaluate projects. Applicants are usually notified of final funding decisions within 45 days. For information on the program contact:

Marketing Staff
Illinois Department of Commerce and Community Affairs

620 East Adams Street
Springfield, Illinois 62701
217-782-6861

State of Illinois Center
100 West Randolph Street
Suite 3-400
Chicago, Illinois 60601
312-917-6649

2309 West Main Street
Marion, Illinois 62959
618-997-4371, Ext. 328

Example -- The Roper Manufacturing Company ceased manufacturing operations at its 800,000 sq. ft. Bradley, Illinois facility in 1982 and donated the site and buildings to the Village of Bradley. The village applied for and received a $250,000 Community Development Assistance Program grant. These funds were used to rehabilitate and market the old Roper facility as a small business incubator. Space for 10-12 small manufacturing firms was provided in part of the facility.

I. ILLINOIS ENTERPRISE ZONE PROGRAM -- DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS

Program Scope -- The Illinois Enterprise Zone Program helps to revitalize communities through the relaxation of government controls and the provision of various state and local financial incentives. Since the program's inception in 1983, the state has designated 46 enterprise zones. There are several aspects of the Enterprise Zone Program that can be used to help a small business incubator and make it successful.

The Illinois Enterprise Zone Act authorizes, among other things, the following:

- The state, a county or municipality can sell to a designated zone organization (DZO) a surplus structure for a sum not exceeding $100. The DZO then agrees to renovate the property and, upon completion, obtains title to the property, which it can then sell or lease for various purposes, including an incubator facility.

- A business may receive a deduction against income subject to state income tax at double the value of a contribution of a building or cash to a designated zone organization. This could make it possible for a DZO to obtain a building that it could use as a small business incubator at no cost.

- A 5 percent sales tax exemption is permitted on building materials used in an enterprise zone, contingent on local sales tax relief of 1 percent. This could help reduce the cost of rehabilitating a building for a privately owned incubator.

Eligibility -- The application of these incentives in connection with the development of an incubator is possible in designated enterprise zones in various communities within the state. A current list of enterprise zones can be obtained from the Department of Commerce and Community Affairs.

Application Process -- Where enterprise zones do exist, interested incubator sponsors or developers should contact the community officials responsible for administering their respective enterprise zone programs to discuss ways that Enterprise Zone Program incentives can be used to help in the acquisition and rehabilitation of a building for a small business incubator. For information on the Enterprise Zone Program contact:

Illinois Department of Commerce and Community Affairs
Office of Economic Development Programs
620 East Adams Street
Springfield, Illinois 62701
217-785-6142

Example -- Werco Industries in Rockdale, Illinois made available 200,000 square feet of its warehouse and industrial space for use as the DesPlaines River Valley Enterprise Zone Incubator. Werco spent a total of about $28,000 on building materials during the renovation of the space for incubator purposes. This provided it a sales tax exemption of about $1,680 on the materials used in rehabilitating the facility.

V. CASE STUDIES

The last section of this handbook contains a series of brief case studies that provide basic information on some of the small business incubator facilities that have been or that are being established in various parts of the country. Incubator facility promoters may find it helpful to contact the managers of some of these facilities to gain first hand knowledge of the problems and opportunities faced by others in the incubator development process.

A. BINGHAMTON, NEW YORK INCUBATOR

Genesis of Facility: Due to high unemployment in the area, the Broome County Industrial Development Agency applied for and received a federal Economic Development Administration grant of $2.75 million for three elements of an overall economic development program: (1) development of a small business incubator, (2) development of two industrial parks, and (3) establishment of a revolving loan program for small businesses. Endicott Johnson Corporation offered to donate a 27,000 sq. ft. building which it no longer needed. A feasibility study supported the proposed conversion of the facility for incubator space. Rehabilitation began in November, 1978 and was completed in June, 1979. During this period, in cooperation with the local chamber of commerce, promotional activities were begun. An advisory committee, comprised of executives from firms in the county, was formed to establish policies, review applicants for tenants, and give free counseling to incubator facility occupants.

Features of Facility: The facility is based upon a simple concept -- provision of "Class A" space at below market rental rates. The rent averages $2.40 per square foot/year, with the tenants paying for electricity. There are no centralized services. It was found that most of the tenants had been in business for one or two years in someone's garage, were fairly well capitalized, and had their own office equipment and secretarial services.

Cost and Funding of Facility: The building itself was donated; rehabilitation costs totalled $700,000. Of the $700,000, an EDA grant provided $600,000 and an Appalachia Regional Commission grant $100,000.

Other Comments: Occupancy in the facility is limited to 3 years and is restricted to: (1) start-ups, (2) small firms that have outgrown their present premises and need space for expansion that is not available in the county, and (3) short term leases (one year) for companies to use while their new facilities are under construction. Rent includes a built-in factor of 7 percent to cover maintenance and replacement costs.

Contact: Peter Kay, Executive Director, Broome County Industrial Development Agency, Binghamton, New York; 607-772-8212. The facility is managed by the Broome County Industrial Development Agency.

B. CONTROL DATA BUSINESS AND TECHNOLOGY CENTER, CHAMPAIGN, ILLINOIS

Genesis of Facility: Control Data Corporation began working with the Illinois Department of Commerce and Community Affairs in 1980 on the development of an incubator facility in Illinois. A small, empty shopping center in Champaign was selected as the site, and Control Data leased 12,000 square feet from the owners of the development. The center opened in the fall of 1982. The facility in Champaign has 34 full time tenants and 11 part time tenants. Nine firms have graduated from the facility.

Features of Facility: The facility has a lot of flexibility and can provide office space for 1 person or 2-3 person offices. A 1 person office rents for $185 per month. This includes: layout and space design assistance, basic utilities, custodial services, receptionist, security system, limited scheduled use of the conference room, and limited use of a computer based education system. Optional services include: furniture rental, phone pickup, shipping and receiving, postage and mailing services, word processing, clerical services, copying and duplicating services, equipment leasing, training and education, business planning assistance, on-line capabilities for identifying available technologies, and business services (financial, personnel, and professional support).

Cost and Funding of Facility: The facility is leased by Control Data Corporation. The cost of remodeling the 4 year old facility averaged $25-$30/square foot (total of approximately $300,000). The cost of remodeling the center was financed by Control Data Corporation.

Other Comments: Control Data Corporation operates Business and Technology centers in numerous locations in the U.S. The failure rate of businesses that have located in the centers has averaged 14 percent as contrasted with the normal rate of 60-70 percent for new firms in general.

Nationwide, over 2,000 jobs have been created through Control Data's Business and Technology Center Program. The corporation helps others establish such centers.

Contact: Dennis L. McConaha, Manager, or Sharon O'Flannigan, 701 Devonshire, Champaign, Illinois 61820, 217-398-5759. The Business and Technology Center is managed by Control Data Corporation.

C. FULTON-CARROLL CENTER, CHICAGO, ILLINOIS

Genesis of Facility: In the late 1970s, the Industrial Council of Northwest Chicago bought the old J. Wolff Manufacturing complex of three brick structures (circa 1896) with a grant from the federal Economic Development Administration. Currently, the complex is 100 percent leased with 41 small business occupants. A total of 17 firms have graduated. The project has created 336 jobs. The Council is demonstrating the rehabilitation potential of aged, multi-story industrial properties.

Features of Facility: Rents in the Fulton-Carroll Center range from $1 to $1.75 per square foot annually for spaces ranging in size from about 1,000 square feet to 110,000 square feet. The Center pays taxes, heating, and maintenance expenses. The Center also offers pooled services on a fee basis in typing, phone answering, word processing, copying, and mailings. It offers meeting facilities and provides business management and financial advice.

Cost and Funding of Facility: The 340,000 square foot complex and land cost $327,000; $1.4 million was spent to rehabilitate the facility. The acquisition and rehabilitation of the buildings were funded by a $1.7 million Economic Development Administration grant.

Contact: June Lavelle, Executive Director, Industrial Council of Northwest Chicago, 2023 West Carroll Ave., Chicago, Illinois 60612, 312-421-3941.

D. ADVANCED TECHNOLOGY DEVELOPMENT CENTER -- GEORGIA TECH UNIVERSITY, ATLANTA, GEORGIA

Genesis of Facility: In the late 1970s, representatives from the Governor's Office, Georgia Tech, and others met and realized that in order to provide the jobs needed in the state's economy, efforts should be taken to recruit industries from outside the state, as well as to "grow new industries from the ground up". In 1980, the Advanced Technology Development Center (ATDC) was formed. The university bought an old, 4-story school building from the City of Atlanta for $1 million. The first floor (8,000 sq. ft) was rehabilitated, and 20 companies (high tech firms) are now located there. ATDC plans to abandon this building and build a new one nearby. The old building will be taken over entirely by the university for other purposes.

Features of Facility: No centralized facilities or services are provided in the present building. The new building will have centralized features, such as word processing, switchboard service, photo copying, public relations assistance, computer programming, etc. The ATDC contact noted that the companies locating in the facility were more interested in the technological assistance available at the university than in the cost of the space. The firms use Georgia Tech's technical people, venture capital contacts, specialized equipment, and computer service.

Cost and Funding of Facility: The university bought the old school building for $1 million with university funds. The first floor was rehabilitated at a cost of $400,000. A $400,000 grant from the Economic Development Administration was obtained to rehabilitate a part of the old school building. The new building will be funded by direct state appropriations (2/3), with the remaining (1/3) being derived from bonds that will be repaid from rents.

Other Comments: The Center graduated its first high technology company in July, 1983. Chalk Board, Inc. has since moved into its own 10,000 square feet facility.

Contact: Jerry Burchfield or John Toon, Georgia Tech University Campus, Atlanta, Georgia; 404-894-3575. The facility is managed by the Advanced Technology Development Center staff.

E. NORTHWEST PENNSYLVANIA REGIONAL INCUBATOR PROJECT -- ERIE, CRAWFORD, LAWRENCE AND WARREN COUNTIES, PENNSYLVANIA

Genesis of Facility: The Northwest Pennsylvania Regional Planning and Development Commission formed the Uniform Region Nine (UR9) Certified Development Company on July 16, 1982 as a means to provide SBA 503 loans to small businesses in the region. The development company, in turn, has entered into agreements with the Warren-Forest Counties Economic Opportunity Council (EOC) and various development associations to acquire and manage four incubator facilities in different counties. The facilities range in size from 20,000 to 300,000 square feet. All participating agencies, including the planning and development commission, will take equity positions in the facilities equal to their contributions. One facility in Warren, PA (an old K-Mart) will provide retail and office space. The other three facilities will provide industrial space. The facilities are located in smaller communities with populations ranging from 12,000 to 20,000. Management teams were organized to screen potential tenants.

Features of Facility: The tenants of the industrial incubator facilities will be charged $1.00 to $2.50 per square foot annually. The following kinds of services will be offered to tenants of the industrial facilities: office space; bookkeeping, secretarial, telephone, and record keeping services; assistance with business plan development, business management, product development, and marketing (in cooperation with community colleges, universities, SCORE, etc.); warehouse and distribution space; and (eventually) a product development laboratory. Appropriate and comparable services will be available in the retail/office incubator facility.

Cost and Funding of Facility: The total cost of the project over a period of four years is projected (at a minimum) to be $3,625,000. The Appalachia Regional Commission provided $1,630,000, and the remainder was obtained from local development associations, bank loans, and other local sources.

Other Comments: Most of the tenants that will locate in the facilities have been working out of their garages or other marginal space. Several industries have taken space to date, including a golf cart manufacturer and a small plastic mold injection firm. It is expected that 250 jobs will be created in the four facilities and that $12 million will be spent by firms and private investors. Federal Job Training Partnership Act participants are being employed to do renovation work at the facilities.

Contact: James L. Lowry, Economic and Community Development Specialist, Northwest Pennsylvania Regional Planning and Development Commission, Franklin, PA 16323; 814-437-3024. The facilities are managed by local industrial development agencies.

F. RIDGWAY, PENNSYLVANIA INCUBATOR

Genesis of Facility: The local planning commission is a focal point for industrial development in the region. It works with fledgling firms that want to get started or expand but lack the capital required to buy or build a new facility. Based on the commission's experience in developing conventional industrial parks, it decided to establish incubator facilities in a former, 700,000 square feet submarine engine plant -- actually a series of buildings. The plant was built in 1940 and added to up until 1960.

Features of Facility: There are a number of centralized services, including: conference space, computer services, secretarial services, photocopying, various kinds of equipment that can be used for a fee, etc. New firms will be charged low rents for 3-5 years before the rents are increased appreciably.

Cost and Funding of Facility: The facility, including a 15 acre site, was purchased for $200,000. $1 million will be spent in the next 2-3 years remodeling it. Funding was obtained from the following sources: local industrial development council -- $200,000; Appalachia Regional Commission -- $750,000; Community Development Block Grant -- $500,000; sale of salvageable copper, etc. -- $200,000.

Other Comments: The initial tenants include 2 expansions and a small start-up firm (a steel fabricator). The start-up firm will be charged $1-$2/square foot/year. The facility is expected to generate $200,000 in rental income in its first year of operation. Local banks have given the commission a credit line, and local governments have reduced property taxes by one half.

Contact: Ron Kuleck, Executive Director, North Central Pennsylvania Planning and Development Commission, Ridgway, Pennsylvania 15853; 814-773-3162. The facility is managed by the Commission.

G. THE BUSINESS CENTER FOR NEW TECHNOLOGY -- ROCKFORD, ILLINOIS

Genesis of Facility: When the Barber-Colman Company, now the Reed-Chatwood Company, found itself with vacant space it wasn't using due to a move of its corporate offices, it decided to use part of the space to develop a "Business Center for New Technology." It was to be a place to give people with ideas for new products an opportunity to plant the seeds of new industries. This was in the fall of 1982. With little advertising, the business center has been able to attract 11 tenants that employ a total of 42 people in 10,400 square feet of space. Many of the tenants are high technology firms (e.g., Image Technology, Inc., Micro Ovens of Rockford, Hughes Business Telephones, etc.).

Features of Facility: Certain basic services are included with the $5.50 per square foot lease cost, including: security, parking, cafeteria, the use of a conference room, and janitorial services. Secretarial, accounting, and photocopying services are available on a fee basis. Manufacturing support on an hourly fee basis is available also, including: drafting, model shop, printed circuit board fabrication, marketing, and other services normally provided to the company's operating divisions. Also available to tenants is Rock Valley College's Small Business Service Center, which is located at the incubator site. It offers management counselling, internal audits, self assessment, referrals to other technical and financial assistance sources, and a small business library.

Cost and Funding of Facility: Since the project used space that it already owned, there were no acquisition costs. While exact figures are not available, the firm noted that remodeling costs were relatively low since changes made to existing space were minimal. Remodeling costs were paid for by Reed-Chatwood and federal discretionary funds secured by the Illinois Department of Commerce and Community Affairs.

Other Comments: The model is an example of how an incubator can be created at a fairly low cost.

Contact: Beverly Paquette, Manager, The Business Center for New Technology, 1220 Rock Street, Rockford, IL 61101, 815-968-4087.

H. SCIENCE PARK -- NEW HAVEN, CONNECTICUT

Genesis of Facility: The Science Park Development Corporation was founded in September, 1981 as a non-profit corporation. The 7 original directors were chosen from the New Haven community. The idea for the 80 acre Science Park grew out of conversations among the City of New Haven, Olin Corporation, and Yale University. These 3 entities, plus the State of Connecticut, are contributing in a variety of ways toward the development of Science Park. The corporation will develop a large tract of land in New Haven for a community of companies engaged in the pursuit and development of new scientific and technological products and processes. The land, owned in large part by Olin, is adjacent to the Yale campus and is in a working neighborhood, which the city and the Science Park Development Corporation are determined to improve. The park also is in the center of a state designated enterprise zone. The park has room for 4 or 5 established businesses and scores of embryo companies. Immediate plans call for a 30 year old abandoned factory building (150,000 square feet) to be rehabilitated and a new 60,000 square feet building to be built. The corporation began formal operations in May, 1983.

Features of Facility: Support services offered to new firms include: electronic mail, satellite communications, data processing, word processing, centralized printing, reception and telephone services, photocopying, conference rooms, loan packaging, and access to accounting and legal services. Venture capital also will be available.

Cost and Funding of Facility:: The Olin Corporation has donated 2.25 acres, including a building. More parcels will be donated as needed. Four to five million dollars will be spent on developing space initially. Funding sources include: Federal Urban Development Action Grant -- $2.25 million; state bond funds -- $5.1 million; city -- $1.375 million (Community Development Block Grant funds); Yale University -- $63,000; and foundations -- $100,000.

Other Comments: It is expected that 500 new jobs will be generated over the next few years. The Science Park Development Corporation has a staff of over 10 (4 professionals, 2-1/2 support persons, and 4 interns.)

Proximity to Yale University is not as important as it might be in some other university settings since Yale is not noted for its hard sciences. As of January, 1986, the incubator had approximately 85 business tenants.

Contact: Henry Chauncey, Jr., President, Science Park Development Association, or Matthew Nemerson, Vice President, Five Science Park, New Haven, Connecticut 06511; 203-786-5000. Science Park is managed by the Science Park Development Corporation.

I. CENTRAL NEW YORK HIGH TECHNOLOGY INCUBATOR -- SYRACUSE, NEW YORK

Genesis of Facility: The idea for the facility grew out of studies and goals of the Central New York High Technology Council (financed by New York State and the chamber of commerce) and the chamber's Greater Syracuse Program, a privately financed economic development effort (supported by 280 local businesses) aimed at promoting Syracuse as a place to do business.

The facility is based in an old, 46,180 square foot school building that is owned by the City of Syracuse. There are several interested firms that could initially use about two-thirds of the total rentable space and create 75 jobs during the first year of operation, and about 300 jobs after three years. It is anticipated that the building will be fully utilized within one year and begin the slow, steady tenant turnover desired in an incubator facility after about three years.

Features of Facility: The facility will provide services such as: flexible, low cost rental space for offices and light manufacturing; shared maintenance and utility costs; and a shipping/receiving area. Clerical support services will include a central switchboard, a typing pool and a copy center. Data processing services will be available for budgeting, accounting, payroll, and product development and analysis. Business development services will include education, training, and technical assistance. Space (from 1,000 to 5,000 square feet) will be provided to embryo businesses at an annual rental rate of $4.65 per square foot.

Cost and Funding of Facility: The total cost of rehabilitating the property is $700,000. The city owned school was donated at its value ($200,000). Rehabilitation costs were financed through federal Economic Development Administration and Community Development Block Grant programs.

Contact: Samuel W. Williams, Jr., Vice President for Economic Development, Greater Syracuse Chamber of Commerce, Syracuse, New York 13201; 315-470-1343. The facility is owned by the Syracuse Industrial Development Agency and managed by the Greater Syracuse Chamber of Commerce.

J. GALESBURG BUSINESS AND TECHNOLOGY CENTER -- GALESBURG, ILLINOIS

Genesis of Facility: The Galesburg Business and Technology Center was established as a result of a pilot project to test the feasibility of small business incubators in four West Central Illinois communities. Called the Western Area Enterprise Program, the project was carried out by the Illinois Department of Commerce and Community Affairs (DCCA), Control Data Corporation, and the participating communities. The venture was partially funded by DCCA through its Community Development Assistance Program (CDAP).

A building formerly housing the Outboard Marine Corporation (OMC) was initially selected as the Galesburg incubator site. OMC deeded the building to the city; the city then spent about $230,000 to renovate it in order to attract a major anchor tenant, National Seal. A total of 20,000 sq. ft. remained for other incubator tenants. National Seal subsequently bought the building from the city for $344,000 on a lease-purchase basis, and has agreed to make the remaining space available for small business tenants for up to three years.

Following the purchase of the building by National Seal, the city began rehabilitating another 8,000 sq. ft. building for use as an office type small business incubator. This facility, Hawthorne Center, is located at a former mental health center complex that has been deeded to the City of Galesburg by the State of Illinois. There will be space for 17-22 firms at this location. Total cost of rehabilitating Hawthorne Center will be $343,000. An advisory board has been organized and discussions are being held with potential tenants.

Features of Facility: The center will have the following support services: word processing, photocopying, phone answering, microcomputer services, receptionist, information center, notary services, mail box and message center, access to Control Data's electronic network, lunch room, security, and parking. A $50,000 revolving loan fund is available for tenants, as is technical assistance from a client advisory board.

Cost and Funding of Facility: Both incubator facilities were donated to the city, one by Outboard Marine Corporation and the other by the State of Illinois. The total cost of rehabilitating the two buildings was $573,000. The rehabilitation costs were funded through the Community Development Assistance Program administered by DCCA, and from the revenues being received from the sale of the OMC building.

Contact: Ray Parkin, City of Galesburg, Galesburg, Illinois 61402; 309-343-4181. The incubator is managed by the Center's board of directors and a full-time manager. The Center is licensed by Control Data World Tech, Inc.

K. MACOMB BUSINESS AND TECHNOLOGY CENTER -- MACOMB, ILLINOIS

Genesis of Facility: The Macomb Business and Technology Center was established as a result of a pilot project to test the feasibility of small business incubators in four West Central Illinois communities. Called the Western Area Enterprise Program, the project was carried out by the Illinois Department of Commerce and Community Affairs (DCCA), Control Data Corporation, and the participating communities. The venture was partially funded by DCCA through its Community Development Assistance Program (CDAP). The facility currently houses five tenants and has created 18 new jobs.

A former Western Illinois University building of 10,000 square feet was selected for use as the Macomb Business and Technology Center. Very little renovation was required so the Center was able to recruit tenants immediately. The primary use of the facility is office and service related. The incubator currently houses an oil drilling company, a marketing research firm, and a computer software and hardware firm.

Features of Facility: Support services offered in the facility include: telephone answering, word processing, photocopying, conference room, furniture, maintenance, security, notary service, and receiving and shipping. A certain amount of these services are included in the base rent. Services over that level are provided on a fee basis. The Center also plans to establish a seed capital fund for tenants.

Cost and Funding of Facility: The facility is being leased from Western Illinois University. Local funding is covering this cost plus a part of the staffing expenses. Over an 18 month time period, local resources will provide $207,300. In addition to an initial $63,000 CDAP grant to lay the groundwork for the project, the City of Macomb has received a $176,874 CDAP grant which covered renovation of the building, development of a central service corps, working capital and administrative support. Funding sources include: State CDAP, Western Illinois University, City of Macomb, and membership support from the Macomb Area Industrial Development Corporation.

Contact: Ginger Norvell, Center Director, P. O. Box 6070, Macomb, Illinois 61455; (Seal Hall, Western Illinois University Campus); 309-837-4684. The facility is managed by the Macomb Area Industrial Development Corporation. The Center is licensed by the Control Data World Tech, Inc.

L. MAPLE CITY BUSINESS AND TECHNOLOGY CENTER -- MONMOUTH, ILLINOIS

Genesis of Facility: The Maple City Business and Technology Center was established as a result of a pilot project to test the feasibility of small business incubators in four west Central Illinois communities. Called the Western Area Enterprise Program, the project was carried out by the Illinois Department of Commerce and Community Affairs (DCCA), Control Data Corporation, and the participating communities. The venture was partially funded by DCCA through its Community Development Assistance Program (CDAP).

The incubator project was spearheaded by the Monmouth Area Industrial Council. The Monmouth facility, about 84,000 square feet in five buildings, was a shuttered farm implement distribution and retail sales operation. There is room for 35 or more small businesses ranging from light manufacturing to office operations. Also located in the facility are the chamber of commerce, a small business development center, Head Start, and a SCORE office. The twelve businesses in the incubator employ 26 full time and 9 part time persons.

Features of Facility: Support services offered in the incubator include: phone answering, secretarial services, photocopying, bulk mailing, computer lines, conference room, notary public services, and management assistance from the facility board. A certain level of services is included in the rent which runs from $4 to $9 per square foot per year ($130 to $325/month). Warehouse space is available from 10 cents to $1 per square foot per year. In addition to the basic incubator services, business assistance also is available from the Small Business Development Center or through the chamber of commerce and SCORE chapter. A seed capital fund also is available for the tenants.

Cost and Funding of Facility: The City of Monmouth acquired the incubator facility for $150,000. This was used for a part of the City's matching share for the CDAP funding. In addition to a $15,000 start up grant through the State operated Community Development Assistance Program, the city received a second grant of $493,000 that was used for renovation and operating purposes. The community has raised $25,000 from contributions that is being used for seed capital.

Contact: Kay Tichenal, Manager, 620 South Main, Monmouth, Illinois 61462; 309-734-8544. The City is responsible for managing the facility under a license with Control Data World Tech, Inc.

M. QUINCY BUSINESS AND TECHNOLOGY CENTER, QUINCY, ILLINOIS

Genesis of Facility: The Quincy Business and Technology Center was established as a result of a pilot project to test the feasibility of small business incubators in four West Central Illinois communities. Called the Western Area Enterprise Program, the project was carried out by the Illinois Department of Commerce and Community Affairs (DCCA), Control Data Corporation, and the participating communities. The venture was partially funded by DCCA through its Community Development Assistance Program (CDAP).

The city is buying a 67,000 sq. ft., five story building that was formerly used by the Putnam Famous Dye Company. The purchase is subject to the Quincy Business and Technology Corporation being reorganized as a 501C3 entity by the IRS in order that a bargain sale can be arranged with the owner.

Features of Facility: A range of support services will be provided in the incubator, including: receptionist, phone answering, word processing, photocopying, micro-computer access, conference facility, information center, bulk mailing, loading facilities, and free advice from the Center's client advisory board. Most of these services will be included in the rent which will run $1.50/sq. ft. for industrial space and $6/sq. ft. for office space. The corporation also plans to make seed capital financing available to the tenants.

Cost and Funding of Facility: The purchase and renovation of the facility is estimated to cost $700,000. The overall cost of the project will be $1 million. The incubator project is being funded through $515,000 in Community Development Assistance Program funds that will be loaned to the Corporation, plus $500,000 in the form of a 10 year city loan at zero percent interest.

Contact: Steve Meckus, Center Manager, 3rd and Oak Streets, Quincy, Illinois 62301; 217-224-6500 (temporary). The facility will be managed by the Quincy Business and Technology Corporation under a license with Control Data World Tech, Inc.

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